CHAMBER OF COMMERCE

UNITED STATES OF AMERICA

R. BRUCE JOSTEN
EXECUTIVE VICE PRESIDENT
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Letter of Comment No: 3227

File Reference: 1102-100

June 2, 2004

Director of Major Projects Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: Proposed SFAS - File Reference No. 1102-100

Dear Sir or Madam:

On behalf of the members of the U.S. Chamber of Commerce, we respectfully submit the following comments in response to the Proposed Statement of Financial Accounting Standards, Share-Based Payment, an Amendment of FASB Statements No. 123 and 95.

The U.S. Chamber of Commerce is the world's largest business federation representing more than three million businesses and organizations of every size, sector and region. We appreciate the opportunity to offer our views on this important matter.

Stock options granted as incentive stock options or under employee stock purchase plans enable corporations to attract and retain employees and allow employees to take an interest in the welfare of their employers and participate financially in their growth. The flexibility that corporations have traditionally enjoyed in making these options available would be severely threatened by the adoption of the board's proposed standard. Therefore, the U.S. Chamber is strongly opposed to FASB's proposed standard that would require the mandatory expensing of stock options.

First, we question the premise that a mandated expense for the "fair value" of employee stock options at grant is appropriate and whether it would result in a fairer and more comparable representation of operating performance between companies. We believe that "fair value" expensing does not accurately reflect the true financial impact on companies and risks degrading the value of financial statements to investors using them to understand a company's financial performance.

Second, we are concerned that the expensing standard as proposed will lead to more confusing financial statements. The Black-Scholes and binomial methods were designed for freely tradable options, not employee stock options. Those models do not take into account the unique attributes of employee stock options. As a result, the Black-Scholes and binomial models systematically overstate the value of employee stock options. The Black-Scholes model has

been discredited by experts on both sides of the expensing debate. Binomial methods are untested and complex. In addition, the lack of specification and agreement on one valuation method sacrifices comparability. Companies in different industries, as well as companies within the same industry, will use different valuation methods with different assumptions and inputs. Investors will lose, not gain, confidence, and the high-growth companies that rely on stock options to attract and retain employees will suffer.

Third, given the large, potential negative impact on U.S. businesses and the lack of consensus on valuation models, we urge FASB to conduct comprehensive field testing of multiple valuation models before proceeding further. Particularly given FASB's emphasis on untested binomial methods, investors deserve to know whether this new accounting standard will value employee stock options accurately or inaccurately. We do not see any reason that such field testing should not be an integral part of FASB's process and strongly urge FASB to commence comprehensive field tests as soon as possible.

Fourth, we are concerned that adoption of the proposed standard may negatively impact employee ownership programs, which are vital to the growth of several sectors of our economy. Over the past decade or more, companies have increasingly offered stock options and other employee ownership plans, traditionally reserved for executives, to their rank-and-file employees to help attract and retain workers, to help boost worker productivity and build team spirit. Indeed, according to a recent study, more than 14 million Americans hold stock options. This equity ownership has fueled the growth of small business, spurred innovation, and contributed to the competitiveness of U.S. businesses and strength of the economy in general.

In conclusion, we urge FASB not to discourage companies from offering stock options to their employees.

Thank you for considering our views.

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R. Bruce Josten